US INFLATION PREVIEW

by

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Inflation Overview

- Inflation is the rate at which the general level of prices for goods and services changes over a given time period.
  - Essentially, inflation represents the change in the purchasing power of money.
- Inflation is a key component of the economy as if inflation rises too quickly it can destabilise an economy while too low inflation can cause an economy to stagnate, especially if the economy falls into deflation.
  - Because of the influence inflation has on an economy, the vast majority of central banks focus on inflation when it comes to determining monetary policy.

Measuring Inflation

- There are numerous measures of inflation, however, the primary measure used by most countries and the market's primary measure is the Consumer Price Index (CPI).
- CPI is calculated by dividing the current cost of the market basket by the cost of the benchmark basket.
  - The basket represents all goods and services that are purchased by the population and includes over 200 categories which are divided into eight groups:
    - Food & Beverages, Housing, Apparel, Transportation Medical Care, Recreation, Education & Communication, Other.
- The Fed's proffered measure of inflation is the Personal Consumption Expenditures Price Index (PCE)

Trading CPI

- Due to inflations impact on the economy and hence, monetary policy, CPI is one of the most market moving risk events and has the potential to influence not only a currencies current sentiment but also its fundamental outlook.
- This means CPI is actually capable of creating multiple trading opportunities ranging from scalping opportunities to long-term trading opportunities.

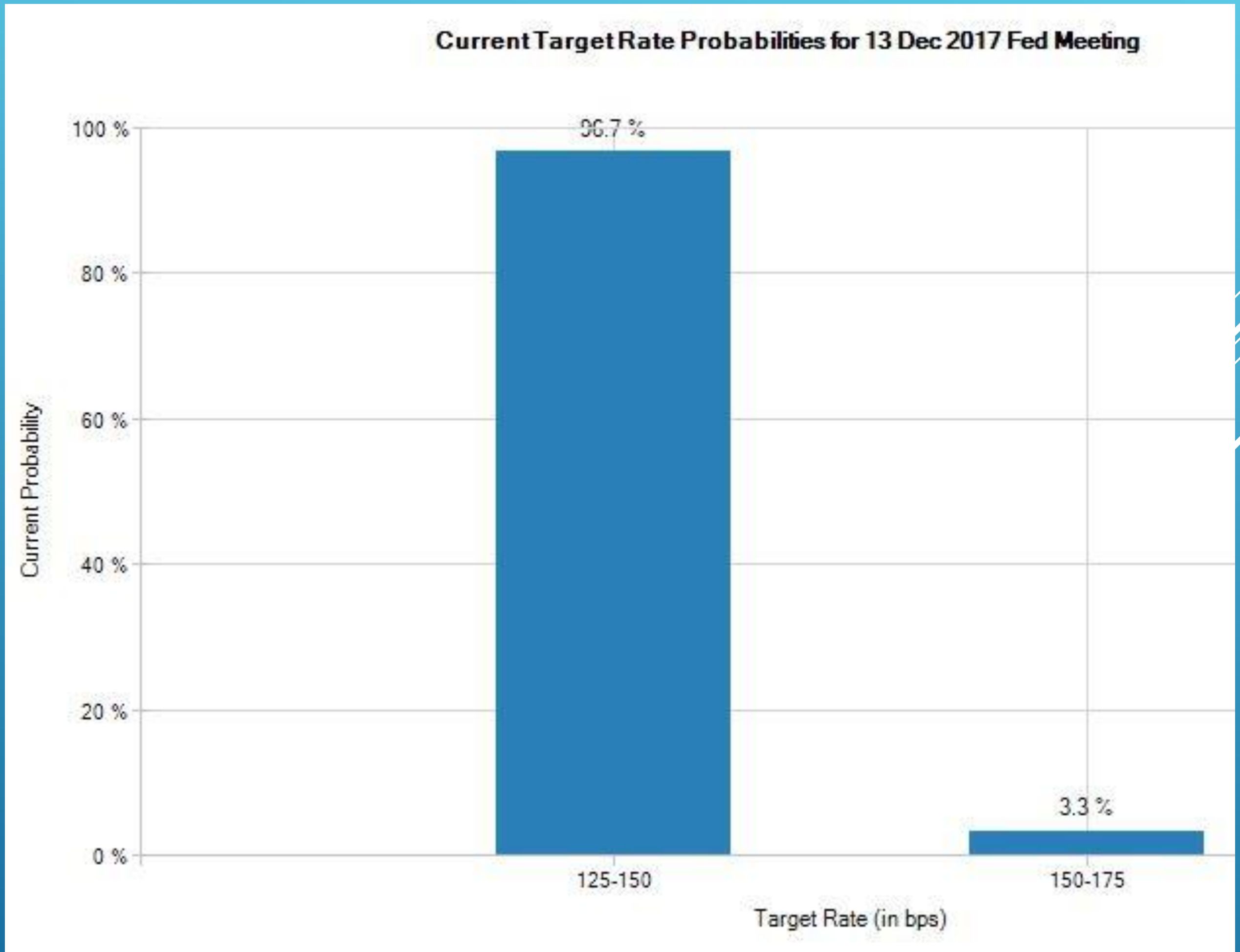
Scalping and Day Trading CPI

- As one of the most significant risk events, any deviation from expectations will likely result in a quick repricing by the market as it corrects from its expectation.
- We can therefore look to take advantage of this repricing by trading in-line with the deviation.
  - The greater the deviation, the more significant the market's reaction is likely to be and the greater chance it will be sustained.

Local Date	Count down	Local Time				Indicator Name	Period	Reuters Poll	Actual	Surprise	Prior	Revised	Min	Max	Count
15 Nov		13:30				Core CPI MM, SA	Oct	0.2%			0.1%		0.1%	0.3%	63
15 Nov		13:30				Core CPI YY, NSA	Oct	1.7%			1.7%		1.6%	1.9%	44
15 Nov		13:30				CPI MM, SA	Oct	0.1%			0.5%		0.0%	0.4%	65
15 Nov		13:30				CPI YY, NSA	Oct	2.0%			2.2%		1.9%	2.3%	43

Swing and Medium Term Trading CPI

- Due to CPI's influence on rate hike expectations, strong deviations have the potential to cause the market to reprice its expectations for upcoming central bank meetings.
  - Any significant repricing which causes the market to decrease or increase it expectations for a rate hike or cut can be used to position ahead of that event.



Long Term Trading CPI

- As CPI influences a central bank's stance on monetary policy, by observing how CPI develops over time, we can anticipate how a central bank is likely to shift between being hawkish, neutral and dovish.
  - By anticipating this shift, we can then anticipate how the market's fundamental outlook and expectations will also change and influence longer term price action.

Trading CPI Breakdown

- We can breakdown trading CPI into a simple structure to help us capture the most of any opportunity.
- Pre-Event Analysis:
  - Is there a bias going into the event?
  - Is this event likely to influence monetary policy expectations for the central banks next meeting?
- Data Release Analysis:
  - Did the data deviate from expectations?
    - Was the deviation significant?
    - Was the data supportive of the sentiment or contrasting current sentiment?
    - Will it likely influence rate hike expectations?
- Post Event Analysis:
  - Is the data showing any trend and how does it fit in with the central bank’s current stance?